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Message Text

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PAGE 01 BRASIL 08539 131236Z

41
ACTION EB-06

INFO OCT-01 ARA-06 ISO-00 TRSE-00 AID-05 CIAE-00 COME-00

FRB-01 INR-05 NSAE-00 RSC-01 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-01 SIL-01 OMB-01 NSC-05 SS-15 STR-01

CEA-01 PA-01 PRS-01 USIA-06 /066 W
---------- 090297
R 131120Z NOV 74
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 0000
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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E.O.11652: N/A
TAGS: EFIN, BR
SUBJECT: CONVERSATION WITH CENTRAL BANK PRESIDENT PAULO LIRA

1. ECONOMIC COUNSELOR, ACCOMPANIED BY FINANCIAL ATTACHE, CALLED ON BRAZIL'S CENTRAL BANK PRESIDENT PAULO LIRA AFTERNOON NOVEMBER 8, VISIT OSTENSIBLY WAS COURTESY CALL. HOWEVER, DURING THE CONVERSATION A NUMBER OF IMPORTANT SUBSTANTIVE POINTS WERE DISCUSSED, AS FOLLOWS:

2. BALANCE OF PAYMENTS SITUATION AND OUTLOOK: LIRA CLAIMED THAT REDUCTION IN TERMS OF FINANCIAL LOANS FROM TEN TO FIVE YEARS AND DECREASE IN WITHHOLDING TAX ON INTEREST PAYMENTS FROM 25 TO 5 PERCENT HAD RESULTED IN SUBSTANTIAL INCREASE OF CAPITAL INFLOW. HE CLAIMED THAT SINCE THESE MEASURES WERE TAKEN NEW MONEY HAD BEEN COMING IN AT A MONTHLY RATE OF $400 MILLION. LIRA CONCLUDED RESERVES WERE BEING DRAWN DOWN BUT WAS OPTIMISTIC THAT BRAZIL WOULD CLOSE THE YEAR WITH A SATISFACTORY LEVEL. HE STRESSED
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PAGE 02 BRASIL 08539 131236Z

BRAZILIAN VIEW THAT RESERVES, AS ONE OF KEY INDICATORS

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

WATCHED BY FOREIGN LENDERS, MUST BE MAINTAINED
AT HIGHLEVEL. ALTHOUGH HE WOULD NOT QUOTE A RESERVE
FIGURE, HE READILY CONFIRMED, IN REPLY TO A DIRECT
QUESTION, THAT IMPORTS IN 1974 COULD REACH $12
BILLION. HE THOUGHT EXPORTS WOULD COME CLOSE TO
$7.5 BILLION.

3. WITH RESPECT TO 1975, LIRA WAS OPTIMISTIC THAT
IMPORTS COULD BE HELD DOWN. HE SAID THAT THE GOB HAD
ALREADY INSTITUTED THE NECESSARY MACHINERY TO KEEP
VIGILANCE ON IMPORTS BY PUBLIC ENTITIES, WHICH HE
ESTIMATED AMOUNT TO ABOUT 40 PERCENT OF TOTAL IMPORTS.
THE GOAL OF MONETARY POLICY FOR THE COMING YEAR WILL
BE TO LIMIT THE GROWTH OF LIQUIDITY IN LINE WITH
THE GROWTH POTENTIAL OF THE ECONOMY. THIS TYPE OF
MONETARY POLICY, HE FELT, WOULD NOT BE CONDUCIVE
TO "SPECULATIVE" IMPORTING NEXT YEAR.
HE THOUGHT THIS SHOULD KEEP IMPORTS DOWN SINCE THE
SUBSTANTIAL INCREASE IN NON-OIL IMPORTS DURING THE
FIRST NINE MONTHS OF THIS YEAR, WHICH RESULTED IN
STOCK-PILING IN MANY COMMODITIES, WAS MADE POSSIBLE
BY THE EXCESS LIQUIDITY INJECTED INTO THE ECONOMY
IN 1973.

4. IDB LENDING: DRAWING FROM STATE 244425, WE
BRIEFED LIRA ON BUSHNELL'S STATEMENT IN IDB BOARD
WITH RESPECT TO FSO LENDING TO BRAZIL, IN
CONTRAST TO NEWSPAPER STORIES (BRASILIA 8346) WHICH
WERE A GROSS DISTORTION OF U.S.. POSITION. LIRA
SAID HE HAD READ THE REPORTS AND HAD ASKED
BRAZIL'S IDB DIRECTOR FOR CLARIFICATION. HE APPRECIATED
THE INFORMATION AND PROMISED TO PASS IT ON TO
FINANCE MINISTER SIMONSEN.

5. LIRA, HOWEVER, CONTINUED THAT HE WOULD WANT TO
TAKE ANOTHER LOOK AT THE AGREEMENT TO LIMIT FSO
FUNDS TO BRAZIL (AND OTHER CATEGORY A COUNTRIES).
ECONOMIC CONDITIONS HAD CHANGED SUBSTANTIALLY
SINCE THAT ACCORD WAS REACHED, AND
IDB LENDING POLICIES SHOULD REFLECT THESE CHANGED
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CIRCUMSTANCES. HE FELT THAT BRAZIL CONTINUES TO HAVE
NEED FOR FSO FUNDS. ALTHOUGH BRAZIL WAS GOING TO
CONTINUE TO RELY ON PRIVATE CAPITAL MARKETS TO FINANCE
ITS CURRENT ACCOUNT DEFICIT, ITS ABILITY TO DO SO
WAS DIRECTLY AFFECTED BY THE AVAILABILITY OF SOFTER
BORROWING OF THE FSO TYPE. WE SAID THAT WE APPRECIATED
HIS REASONING BUT THAT IN OUR VIEW EVEN UNDER BEST
OF CIRCUMSTANCES FSO LENDING TO BRAZIL WOULD SEEM TO

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BE TOO SMALL TO HAVE SIGNIFICANT IMPACT ON BRAZIL'S EXTERNAL DEBT POSITION. LIRA DID NOT ACCEPT THIS ARGUMENT, AND INDICATED HE MIGHT BE IN TOUCH WITH US AGAIN ON THIS MATTER.
CRIMMINS

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